

Congress of the United States
House of Representatives

107th Congress

Committee on Small Business

2561 Rayburn House Office Building

Washington, DC 20515-6515

September 26, 2002

The Honorable J. Dennis Hastert
Speaker
United States House of Representatives
Room H-232, the Capitol
Washington, DC 20515-6501

Dear Mr. Speaker:

We are writing to alert you to a serious problem of access to credit that will have a devastating impact on small businesses throughout the country, and to seek your leadership in protecting our government's principal programs aimed at ensuring access to credit for small business creation.

First, the Small Business Administration (SBA) is poised to severely cut back both the amount of loans made and the maximum loan size under the Section 7(a) Loan Guaranty Program. The 7(a) loan program is a vital source for nearly \$11 billion of new capital to small businesses every year. In fact, the 7(a) program provides 40 to 50 percent of all the long-term (over three years) financing that goes to small businesses, which has led to the creation of thousands of small firms, contributing to job creation and economic growth.

The SBA action is a misguided response to last year's Congressional action to finally reduce unnecessarily high user fees (read: taxes) charged to small business borrowers every year. The President signed into law Congress's unanimous action last year (P.L. 107-100) to reduce fees charged to borrowers in the 7(a) program starting on October 1, 2002 because the program has been netting the government handsome profits every year – taxing small business more than \$1.4 billion over the last ten years beyond the cost of operating the program. This is all because of an overly conservative credit subsidy calculation model designed by the Office of Management and Budget (OMB) that requires charging more fees than is necessary to cover potential bad loans. Eliminating this tax on small businesses and preventing over-collections should have been welcomed news. Instead, SBA and OMB are refuting the basis for last year's unanimous Senate and House actions and are taking actions that would hamper the ability of small businesses to access one of the few remaining sources of credit.

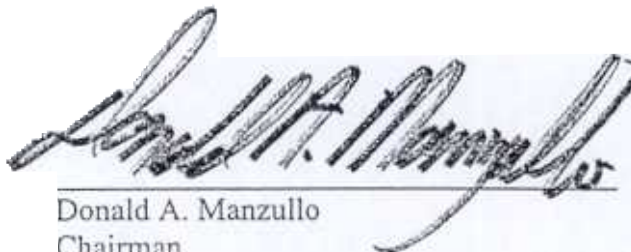
Moreover, the subsidy rate miscalculation problem is even bigger, relative to the size of the program, in the SBA's 504 Certified Development Company (CDC) loan program. This program provides small businesses with long-term, fixed-rate financing for expansion purposes such as the purchase of land, buildings and long-life capital equipment. However, because the 504 program is self-sustaining, it is off the appropriations radar-screen but nevertheless its impact is felt in every Congressional district in the nation. Small business 504 borrowers have also been overcharged or overtaxed by nearly \$400 million just in the last three years. This year, the President's budget request unfortunately proposes to raise the fees in the SBA's 504 program when they actually should be going down if OMB had an accurate subsidy rate model in place.

This is the worst possible time for the SBA and OMB to take these actions. Small businesses create over three-quarters of the new jobs in the United States, and contribute over 50 percent of the private gross domestic product. Small businesses have pulled this nation out of every economic downturn. It is therefore difficult to overstate the economic damage that would result from cutting the largest federal assistance program for small business in half, banning 7(a) loans in excess of \$500,000 starting on October 1st, and raising fees in the 504 program.

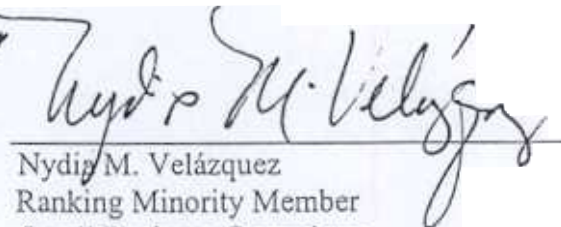
Congress must act before we adjourn to stop these unfair taxes on small businesses. Failure to protect the existing 7(a) Loan Guaranty Program and lower fees in the 504 CDC program will further aggravate the nationwide credit crunch and stall the fragile economic recovery. We must not stand by and let this happen.

We look forward to working with you to protect America's small businesses. We have tried to work to resolve this problem administratively over the past six years by suggesting more relevant factors to go into a subsidy rate calculation model but to little avail. We would appreciate your leadership ensuring that this issue is addressed legislatively before Congress adjourns for the fall elections in order to (1) allow the 7(a) program to continue to operate at its normal \$11 billion annual volume, (2) prevent the SBA from imposing any new limitations or restrictions on loan size or access, and (3) make sure fees are not needlessly increased in the 504 program.

Sincerely,



Donald A. Manzullo
Chairman
Small Business Committee



Nydia M. Velázquez
Ranking Minority Member
Small Business Committee

W. Todd Akin

W. Todd Akin

3
Brian Baird

Brian Baird

Richard H. Baker

Richard H. Baker

Roscoe G. Bartlett

Roscoe G. Bartlett

Judy Biggert

Judy Biggert

Ken Calvert

Ken Calvert

Michael N. Castle

Michael N. Castle

Larry Combest

Larry Combest

Jim DeMint

Jim DeMint

Mike Ferguson

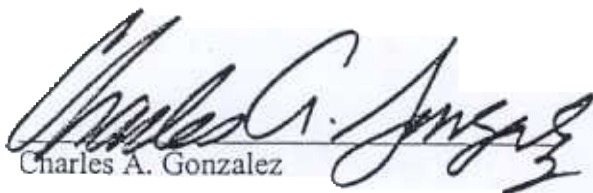
Mike Ferguson

Harold E. Ford, Jr.

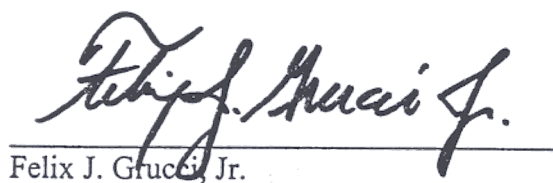
Harold E. Ford, Jr.

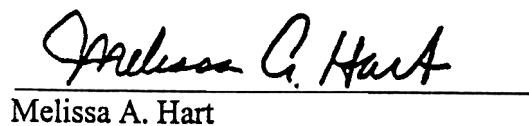
George W. Gekas

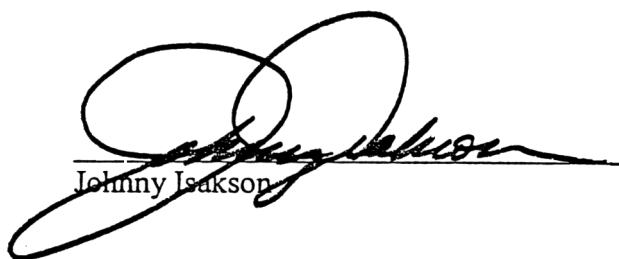
George W. Gekas


Charles A. Gonzalez

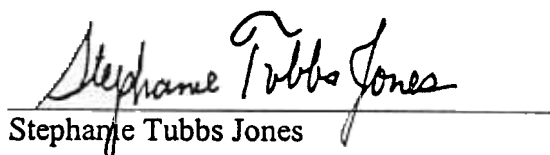

Sam Graves

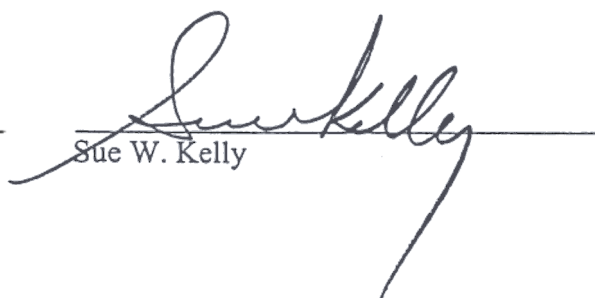

Felix J. Grucci, Jr.

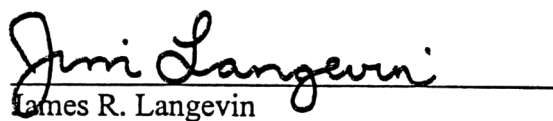

Melissa A. Hart

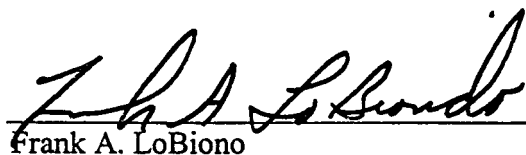

Johnny Isakson

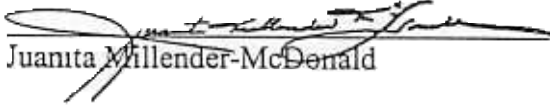

Darrell E. Issa


Stephanie Tubbs Jones


Sue W. Kelly


James R. Langevin


Frank A. LoBiondo



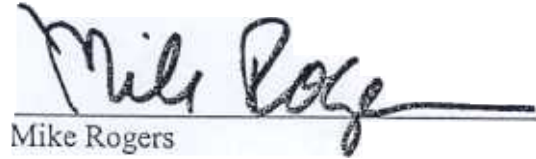
Juanita Millender-McDonald



Robert W. Ney



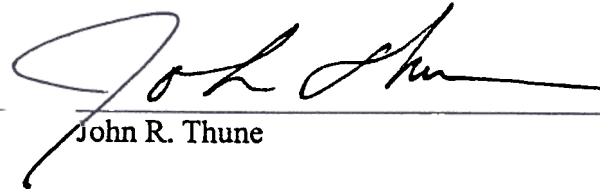
Bill Pascrell, Jr.



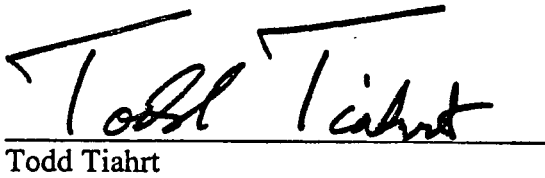
Mike Rogers



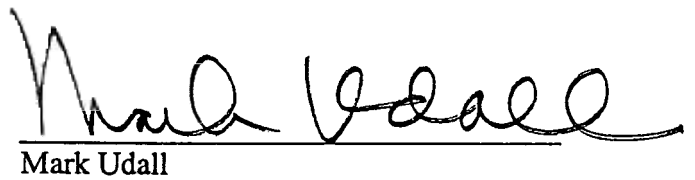
Bill Shuster



John R. Thune



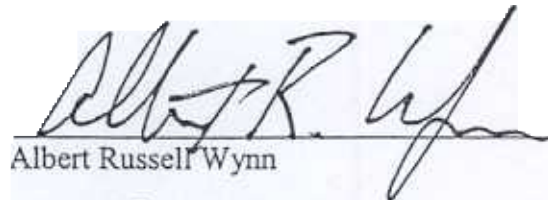
Todd Tiahrt



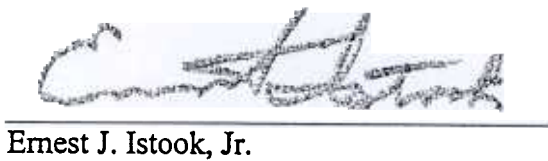
Mark Udall



Tom Udall



Albert Russell Wynn



Ernest J. Istook, Jr.



Christopher Shays

Tom Osborne

Tom Osborne

Kenny C. Hulshof

Kenny C. Hulshof

Jim Ryan

Jim Ryan

Ed Schrock

Edward L. Schrock

Tim Holden

Tim Holden

Lucille Roybal-Allard

Lucille Roybal-Allard

Doug Bereuter

Doug Bereuter

Patrick J. Kennedy

Patrick Kennedy

Dennis Moore

Dennis Moore

Mike Ross

Mike Ross

Brad Carson

Brad Carson

Charles Gonzalez

Charles Gonzalez

Robert Brady

Robert Brady

Ronnie Shows

Ronnie Shows

Danny K. Davis

Danny K. Davis

Grace F. Napolitano

Grace Napolitano

Tom Sawyer

Tom Sawyer

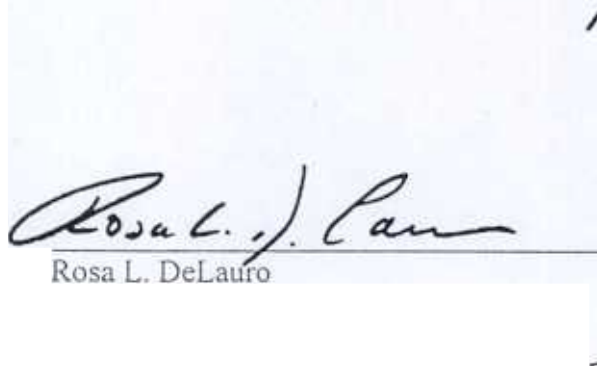

Lois Capps

Lois Capps



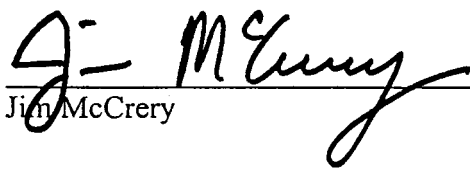

Anibal Acevedo-Vilá

Donna M. Christensen

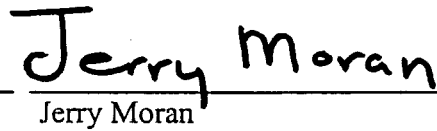



Rosa L. DeLauro

Gil Gutknecht



Jim McCrery



Jerry Moran



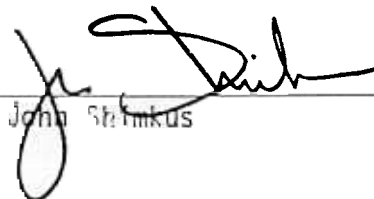
Sue Wilkins Myrick



David D. Phelps



Charles W. "Chip" Pickering



John Shimkus